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TOWNSHIP OF LIMA
Washtenaw County, Michigan

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GENERAL PURPOSE FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended March 31, 2004

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

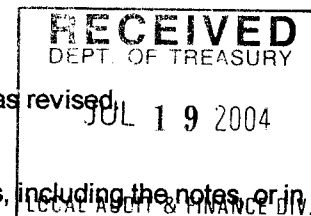
Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Lima	County Washtenaw
Audit Date March 31, 2004	Opinion Date June 16, 2004	Date Accountant Report Submitted to State: June 16, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☒ yes ☐ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF LIMA
Washtenaw County, Michigan

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report		1
General Purpose Financial Statements:		
Combined Balance Sheet – All Fund Types and Account Groups	A	2
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types	B	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	C	4-5
Notes to Financial Statements		6-11
Supplementary Information:		
General Fund Expenditures by Detailed Account	D	12-13
Current Tax Collection Fund Statement of Changes in Assets and Liabilities	E	14

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

June 16, 2004

To the Township Board
Township of Lima
Washtenaw County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Lima, Washtenaw County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Lima's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Lima, Washtenaw County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Lima, Washtenaw County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF LIMA
Washtenaw County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group General Fixed Assets</u>	<u>Total (Memorandum Only)</u>
<u>Assets</u>	<u>General</u>	<u>Agency</u>		
Cash in bank	231 415 09	221 919 37	-	453 334 46
Taxes receivable	11 855 91	-	-	11 855 91
Due from other funds	6 304 11	-	-	6 304 11
Prepaid expenses	16 734 00	-	-	16 734 00
Land	-	-	2 000 00	2 000 00
Building and improvements	-	-	23 075 01	23 075 01
Equipment	-	-	41 145 80	41 145 80
Total Assets	<u>266 309 11</u>	<u>221 919 37</u>	<u>66 220 81</u>	<u>554 449 29</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	-	6 304 11	-	6 304 11
Due to other units	-	215 615 26	-	215 615 26
Total liabilities	-	<u>221 919 37</u>	-	<u>221 919 37</u>
Fund equity:				
Investment in general fixed assets	-	-	66 220 81	66 220 81
Fund balances:				
Unreserved:				
Undesignated	<u>266 309 11</u>	-	-	266 309 11
Total fund equity	<u>266 309 11</u>	-	<u>66 220 81</u>	<u>332 529 92</u>
Total Liabilities and Fund Equity	<u>266 309 11</u>	<u>221 919 37</u>	<u>66 220 81</u>	<u>554 449 29</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

EXHIBIT B

Year Ended March 31, 2004

	<u>Governmental</u> <u>Fund Type</u> <u>General</u>
Revenues:	
Property taxes	136 347 54
Licenses and permits	30 730 00
State revenue sharing	169 731 00
Charges for services	47 099 61
Interest	3 787 44
Rents	325 00
Miscellaneous	<u>48 230 20</u>
Total revenues	<u>436 250 79</u>
Expenditures:	
Legislative:	
Township Board	5 160 00
General government:	
Executive	45 879 99
Financial administration	116 885 05
Building and grounds	7 676 75
Public safety:	
Fire protection	106 042 07
Planning and zoning	66 906 88
Public works:	
Highways and streets	13 600 75
Sanitation	19 431 04
Recreation and culture:	
Cultural	400 00
Other functions:	
Other functions	<u>3 596 79</u>
Total expenditures	<u>385 579 32</u>
Excess of revenues over expenditures	50 671 47
Fund balance, April 1	<u>215 637 64</u>
Fund Balance, March 31	<u><u>266 309 11</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

EXHIBIT C
Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	135 000 00	136 347 54	1 347 54
Licenses and permits	18 000 00	30 730 00	12 730 00
State revenue sharing	180 000 00	169 731 00	(10 269 00)
Charges for services	42 000 00	47 099 61	5 099 61
Interest	1 500 00	3 787 44	2 287 44
Rents	-	325 00	325 00
Miscellaneous	<u>16 500 00</u>	<u>48 230 20</u>	<u>31 730 20</u>
Total revenues	<u>393 000 00</u>	<u>436 250 79</u>	<u>43 250 79</u>
Expenditures:			
Legislative:			
Township Board	5 160 00	5 160 00	-
General government:			
Executive	50 400 00	45 879 99	(4 520 01)
Elections	6 000 00	-	(6 000 00)
Financial administration	144 567 40	116 885 05	(27 682 35)
Building and grounds	16 200 00	7 676 75	(8 523 25)
Public safety:			
Fire protection	150 000 00	106 042 07	(43 957 93)
Planning and zoning	69 512 40	66 906 88	(2 605 52)
Public works:			
Highways and streets	18 000 00	13 600 75	(4 399 25)
Sanitation	24 000 00	19 431 04	(4 568 96)
Recreation and culture:			
Cultural	600 00	400 00	(200 00)
Other functions:			
Other functions	4 000 00	3 596 79	(403 21)
Capital outlay	<u>7 000 00</u>	<u>-</u>	<u>(7 000 00)</u>
Total expenditures	<u>495 439 80</u>	<u>385 579 32</u>	<u>(109 860 48)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		<u>Over (Under) Budget</u>
	<u>Budget</u>	<u>Actual</u>	
Excess (deficiency) of revenues over expenditures	(102 439 80)	50 671 47	153 111 27
Fund balance, April 1	<u>208 777 22</u>	<u>215 637 64</u>	<u>6 860 42</u>
Fund Balance, March 31	<u>106 337 42</u>	<u>266 309 11</u>	<u>159 971 69</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Township of Lima, Washtenaw County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Lima. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Fund

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was .8931 mills, and the taxable value was \$152,274,932.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts which is required by generally accepted accounting principles.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 - Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 2 – Deposits and Investments (continued)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>453 334 46</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>344 971 58</u>
Total Deposits	<u>444 971 58</u>

The Township of Lima did not have any investments as of March 31, 2004.

Note 3 - Changes in General Fixed Assets

A summary of the changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land	2 000 00	-	-	2 000 00
Building and improvements	23 075 01	-	-	23 075 01
Equipment	<u>41 145 80</u>	<u>-</u>	<u>-</u>	<u>41 145 80</u>
Totals	<u>66 220 81</u>	<u>-</u>	<u>-</u>	<u>66 220 81</u>

TOWNSHIP OF LIMA
Washtenaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2004

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>6 304 11</u>	Current Tax Collection	<u>6 304 11</u>

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 6 – Retirement Plan

The Township has a defined contribution retirement plan through Michigan Municipal Employees Retirement System. The Township's contribution for the year ended March 31, 2004, was \$9,948.23.

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Lima does not issue building permits. Building permits are issued by the Chelsea Area Construction Agency, a local governmental unit.

Note 9 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF LIMA
Washtenaw County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 1

Legislative:	
Township Board Trustees	<u>5 160 00</u>
Executive:	
Supervisor:	
Salary	21 000 00
Assessor:	
Contracted services	21 000 00
Contracted services	605 70
Mileage and office	1 933 20
Education and training	1 031 30
Miscellaneous	<u>309 79</u>
	<u>45 879 99</u>
Financial administration:	
Clerk:	
Salary	21 000 00
Treasurer:	
Salary	21 000 00
Secretary	10 908 30
Board of Review	396 00
Social security tax	1 779 85
Pension	9 948 23
Office supplies	6 067 40
Printing and publishing	2 111 85
Professional services	24 451 87
Insurance	15 262 00
Mileage and office	2 485 40
Contracted services	1 134 00
Miscellaneous	<u>340 15</u>
	<u>116 885 05</u>
Building and grounds:	
Repairs and maintenance	3 545 00
Utilities	<u>4 131 75</u>
	<u>7 676 75</u>
Fire protection:	
Contracted services	<u>106 042 07</u>
Planning and zoning:	
Per diem	5 585 00
Zoning inspector	8 022 00
Operating supplies	453 38
Professional services	46 362 40
Miscellaneous	<u>6 484 10</u>
	<u>66 906 88</u>

TOWNSHIP OF LIMA
Washtenaw County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 2

Highways and streets:	
Repairs and maintenance	<u>13 600 75</u>
Sanitation	<u>19 431 04</u>
Cultural:	
Contracted services	<u>400 00</u>
Other functions:	
Memberships and dues	<u>3 596 79</u>
Total Expenditures	<u><u>385 579 32</u></u>

TOWNSHIP OF LIMA
Washtenaw County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended March 31, 2004

EXHIBIT E

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>216 817 53</u>	<u>4 610 401 76</u>	<u>4 605 299 92</u>	<u>221 919 37</u>
<u>Liabilities</u>				
Due to other funds	8 645 86	178 209 44	180 551 19	6 304 11
Due to other units	<u>208 171 67</u>	<u>4 432 192 32</u>	<u>4 424 748 73</u>	<u>215 615 26</u>
Total Liabilities	<u>216 817 53</u>	<u>4 610 401 76</u>	<u>4 605 299 92</u>	<u>221 919 37</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

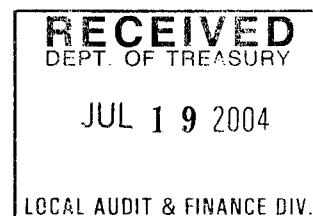
512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 16, 2004

To the Township Board
Township of Lima
Washtenaw County, Michigan



We have audited the financial statements of the Township of Lima, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Lima in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board
Township of Lima
Washtenaw County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board
Township of Lima
Washtenaw County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Lima will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants